

AUDIT AND GOVERNANCE COMMITTEE – 20 JUNE 2024

UPDATE ON EXTERNAL AUDIT

Executive Summary

Attached is an update on the External Audit from BDO.

Recommendations

The Committee is requested to:

RESOLVE That the update be received.

The Committee has the authority to determine the recommendation(s) set out above.

Background Papers: None.

Reporting Person: Steve Bladen (Audit Director, Public Sector Assurance)
BDO LLP

Contact Person: Stephen Fitzgerald, Director of Finance / Section 151 Officer
Email: stephen.fitzgerald@woking.gov.uk, Extn: 3480

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WOKING BOROUGH COUNCIL

External Audit Update

Page 3

20 June 2024

EXECUTIVE SUMMARY

REPORT PURPOSE

This report provides the Standards and Audit Committee with an update on the progress of our audits for the years 2019/20 - 2022/23.

The paper also provides a brief update on developments in respect of steps being taken within the wider local government audit system to address the significant audit backlogs within the local government sector.



SECTOR UPDATE

We previously reported to this Committee that in February 2024 the government and National Audit Office (NAO) consulted on proposals to address the backlog in local government audits across the sector. This was against a backdrop of ongoing audit delays; as at 31 March 2024 a total of 642 opinions were delayed, covering all audit suppliers

In summary:

- The Department for Levelling Up, Homes and Communities (DLUHC) sought views on changes to the Accounts and Audit Regulations 2015 to introduce backstop dates for the publication of audited accounts
- The NAO sought views on changes to the Code of Audit Practice to support auditors to meet backstop dates and promote more timely reporting of their work on value for money arrangements

Pages 5 A key element of the consultation included a proposal for a the establishment of a statutory backstop date of 30 September 2024 for all audits up to and including 2022/23. In establishing a statutory backstop date, there was an acknowledgement in the consultation that this would likely result in either qualified or disclaimed audit opinions for a number of Councils. A disclaimed audit opinion effectively means that the auditor is unable to offer a view as to whether the financial statements give a true and fair view.

The legislation necessary to enact these proposals was not in place prior to the announcement of a general election on the 4th July. At this stage it is unclear as to what the next government's view will be on the proposals previously consulted upon. While we await further information on the next governments proposals, we continue to focus on concluding our audit on the Council's 2019/20 financial statements.

UPDATE ON OUTSTANDING AUDITS

Progress on 2019/20 Audit

We have previously reported to this Committee on the progress of our 2019/20 audit. The position on that audit is unchanged from what we have previously reported, our aim being to conclude that audit later this year, in advance of the 30th September (the backstop date consulted on by DLUHC).

We have previously provided the Audit and Assurance Committee with update reports setting out the status of our audit. Within those reports we have highlighted those areas where we encountered significant issues in obtaining assurance over specific elements of the Council's draft financial statements. We have set out further details of these below and we continue to liaise with officers and Commissioners on each of these matters as we consider the implications for our auditor's report.

Transactions and balances relating to subsidiary undertakings

The CIPFA Code of Practice requires a Council to prepare Group financial statements if it has control over one or more legal entities. For 2019/20, the Council has prepared financial statements that consolidate the Council's wholly owned subsidiaries. The Council's group structure is complex, and amounts relating to entities with the group boundary are material to the Council.

These subsidiary entities are subject to statutory audit by a local firm. We have been unable to obtain assurance that the amounts consolidated by the Council in respect of these entities have been accounted for in accordance with the Code, and other relevant standards. We continue to consider the implications of this for our audit.

Minimum Revenue Provision

Minimum Revenue Provision (MRP) is a statutory mechanism to account for the charge to revenue for capital expenditure to be met from borrowing. Our audit work in this area raised a number of points around the adequacy of the Council's MRP policy.

The Council has now adopted a revised MRP policy and calculated significant, corrective MRP charges for the years up to and including 2023/24. The Council proposes to correct these in 2023/24 and continues to discuss this matter with DLUHC officials.



UPDATE ON OUTSTANDING AUDITS

Impairment of Long-Term debtors

The Council previously lent significant sums to its subsidiary companies. These companies have been making losses for several years and it is unclear as to whether they are able to repay those loans in full. As such, the Council would need to determine the recoverability of these loans and determine the extent of any impairment.

The Exceptional Financial Support proposed by DLUHC for the Council allows for the write off of loans made for revenue purpose (c.£150m) and the balance sheet will reflect the impairment.



OTHER MATTERS

Value for Money work

Alongside our work on the Council's financial statements, we are required to issue a value for money conclusion. As auditors we need to gather sufficient evidence and document our evaluation of the Council's arrangements to reach our conclusion. Our work in this area remains in progress.

Objection to 2019/20 financial statements

We have received and accepted from a local elector an objection to the Council's 2019/20 financial statements. The objection relates to the Council's policy on Minimum Revenue Provision. We will conclude on this matter alongside our work on the financial statements and write to the objector setting out our findings.

Audits for years relating to 2020/21 - 2022/23

Progress on our audit of the financial statements for the years 2020/21 - 2022/23 has been limited, noting that for 2020/21 the Council has not yet prepared group financial statements (financial statements for the Council as a single entity only have been prepared) and that work in preparing financial statements for the years 2021-22 and 2022-23 is in progress.

FOR MORE INFORMATION:

Steve Bladen, Key Audit Partner
Audit Director

Email: steve.bladen@bdo.co.uk

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